

# INVESTOR'S BUSINESS DAILY

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## Midcap Stock ETFs Play Vital Role In Portfolios

NorthCoast also tweaks exposure to international funds, favoring Japan and the United Kingdom

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FOR INVESTOR'S BUSINESS DAILY

Midcap stocks have not been overlooked by NorthCoast Asset Management. They have been a key driver of growth for its ETF retirement portfolios in 2016. The trend continued in September as NorthCoast has seen little reason to stray from the outperforming sector. NorthCoast did make tweaks to its international holdings, which have also been an integral part of the firm's investment strategy.

Here are some highlights from the portfolios for the month:

### Value Plays

iShares Core S&P Mid-Cap ETF<sup>IJH</sup> remained a top holding in three of NorthCoast's portfolios in September. The position has gained 11.4% since the start of the year.

"Going forward, what we are seeing is valuations are still promising and could have more potential for appreciation for IJH and iShares Core S&P Small-Cap ETF<sup>IJR</sup> vs. iShares Core S&P 500 ETF<sup>IVV</sup>," said Patrick Jamin, chief investment officer for NorthCoast. "We have also seen that sentiment and short-interest indicators have been more favorable for midcaps and small caps vs. large caps."

Jamin added shares of iShares MSCI Japan ETF<sup>EWJ</sup> during the month on promising valuation and macro developments. "Our outlook on Japan is getting back to neutral from negative," Jamin said. "Japan is attractive from a valuation standpoint and we are also seeing improvement in economic data. Its housing market has benefited from low-interest-rate policies. Housing starts rose 8.9% in July on a year-over-year basis. Retail sales have also been improving."

EWJ shares gained 2.3% in September and are up 3.6% so far this year.

NorthCoast bought shares of iShares MSCI United Kingdom<sup>EWU</sup> in September as manufacturing activity in the country heated up. "We

had been underweight the U.K. for more than a year leading up to Brexit," Jamin said. "In August though, PMI jumped 5 points from July to 53.3."

In the near term, Jamin expects the holding to benefit from a weakening currency and pro-business policies. "The recent depreciation of the pound will help U.K. exports," he said. "We also expect some policy benefits from possible future corporate tax cuts."

Shares of EWU were flat for September.

Jamin still likes iShares Core MSCI Emerging Markets ETF<sup>IEMG</sup>, which is rich with companies based in China and other emerging markets. "Chinese consumers are painting a promising picture," Jamin

said. "Retail sales increased 10.6% year-over-year in August. We've also seen spending on construction materials and cars increase steadily."

IEMG shares rose 2.1% during the month and are up 15.2% for the year.

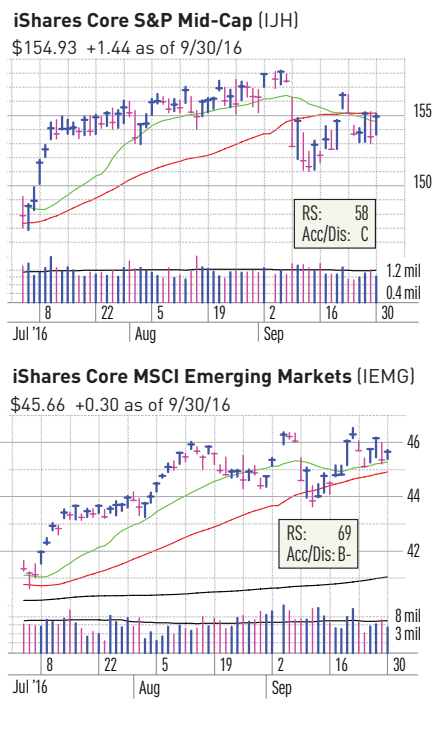
### Getting Pricey

Lackluster growth led Jamin and his team to trim its stakes in iShares MSCI Canada<sup>EWK</sup> in September. "Economic data has not been very impressive for Canada recently," Jamin said.

"We have seen a slowdown in manufacturing due in part to a strengthening Canadian dollar and rising labor costs. Our models are also indicating that when we compare EWK with other developed-market equities, it is no longer attractive on a valuation basis."

Shares of EWK ticked down 0.4% in September, but are still up 17.2% year to date.

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## Tactical Income

iShares ETFs	Symbol	Asset class	12-mo yield		Allocation	Price	±%
10+ Year Credit Bond	CLY	Bond - Corp. - Inv. Grade	4.0%	20%	63.26	16.8%	
MBS Bond	MBB	Bond - ABS	2.8%	15%	110.09	3.6%	
iBoxx \$ High Yield Corporate Bond	HYG	Bond - Corp. - High Yield	5.4%	11%	87.26	12.4%	
JPMorgan USD Emerging Markets Bond	EMB	Bond - Emerging Market	4.7%	11%	117.21	14.5%	
Intermediate Credit Bond	CIU	Bond - Corp. - Inv. Grade	2.4%	5%	111.35	5.5%	
National AMT-Free Municipal Bond	MUB	Bond - Municipal	2.3%	5%	112.75	3.3%	
Short-Term Treasury Bond	SHV	Bond - Govt - Short Term	0.2%	3%	110.43	0.4%	
Select Dividend	DIV	Equity - Domestic - Div.	3.1%	5%	85.69	16.8%	
Global Infrastructure	IGF	Equity - Infrastructure	3.1%	5%	41.56	17.5%	
International Select Dividend	IDV	Equity - International - Div.	5.4%	5%	29.98	8.9%	
US Preferred Stock	PFF	Preferred Stock	5.7%	5%	39.50	5.5%	
US Real Estate	IYR	Real Estate	4.1%	5%	80.64	10.6%	
Mortgage Real Estate	REM	Real Estate	10.6%	5%	10.51	19.5%	

► Designed to generate income with protection against inflation and rising interest rates. Appropriate Benchmark: 100% Barclays Bond Aggregate

## Diversified Core

iShares ETFs	Symbol	Asset class	12-mo yield		Allocation	Price	±%
MBS Bond	MBB	Bond - ABS	2.8%	10%	110.09	3.6%	
10+ Year Credit Bond	CLY	Bond - Corp. - Inv. Grade	4.0%	10%	63.26	16.8%	
iBoxx \$ High Yield Corporate Bond	HYG	Bond - Corp. - High Yield	5.4%	9%	87.26	12.4%	
Emerging Markets High Yield Bond	EMHY	Bond - Corp. - High Yield	6.3%	5%	50.53	17.0%	
JPMorgan USD Emerging Markets Bond	EMB	Bond - Emerging Market	4.7%	5%	117.21	14.5%	
Short-Term Treasury Bond	SHV	Bond - Govt - Short Term	0.2%	2%	110.43	0.4%	
MSCI European Union	EZU	Equity - International	2.7%	15%	34.49	0.9%	
MSCI UK	EWU	Equity - International	4.5%	10%	15.84	0.6%	
Core S&P Mid-Cap	IJH	Equity - Mid Cap	1.6%	10%	154.71	12.4%	
Core S&P Small-Cap	IJR	Equity - Small Cap	1.3%	9%	124.15	13.9%	
Core S&P 500	IVV	Equity - Large Cap	1.6%	6%	217.56	7.8%	
Core MSCI Emerging Markets	IEMG	Equity - Emerging Market	2.0%	5%	45.61	16.9%	
MSCI Canada	EWK	Equity - International	1.9%	4%	25.69	20.4%	

► Centerpiece portfolio for a conservative retiree or investor near retirement. Appropriate Benchmark: 50% S&P 500 & 50% Barclays Bond Aggregate

## Diversified Growth

iShares ETFs	Symbol	Asset class	12-mo yield		Allocation	Price	±%
10+ Year Credit Bond	CLY	Bond - Corp. - Inv. Grade	4.0%	7%	63.26	16.8%	
iBoxx \$ High Yield Corporate Bond	HYG	Bond - Corp. - High Yield	5.4%	6%	87.26	12.4%	
JPMorgan USD Emerging Markets Bond	EMB	Bond - Emerging Market	4.7%	5%	117.21	14.5%	
MBS Bond	MBB	Bond - ABS	2.8%	2%	110.09	3.6%	
Short-Term Treasury Bond	SHV	Bond - Govt - Short Term	0.2%	2%	110.43	0.4%	
MSCI European Union	EZU	Equity - International	2.7%	15%	34.49	0.9%	
Core S&P 500	IVV	Equity - Large Cap	1.6%	14%	217.56	7.8%	
Core S&P Mid-Cap	IJH	Equity - Mid Cap	1.6%	13%	154.71	12.4%	
Core MSCI Emerging Markets	IEMG	Equity - Emerging Market	2.0%	12%	45.61	16.9%	
MSCI UK	EWU	Equity - International	4.5%	11%	15.84	0.6%	
Core S&P Small-Cap	IJR	Equity - Small Cap	1.3%	9%	124.15	13.9%	
MSCI Canada	EWK	Equity - International	1.9%	4%	25.69	20.4%	

► Centerpiece portfolio for a more growth-oriented retiree or investor retiring in 5-10 years. Appropriate Benchmark: 70% S&P 500 & 30% Barclays Bond Aggregate

## Tactical Growth

iShares ETFs	Symbol	Asset class	12-mo yield		Allocation	Price	±%
Short-Term Treasury Bond	SHV	Bond - Govt - Short Term	0.2%	7%	110.43	0.4%	
Core S&P 500	IVV	Equity - Large Cap	1.6%	19%	217.56	7.8%	
MSCI European Union	EZU	Equity - International	2.7%	18%	34.49	0.9%	
Core MSCI Emerging Markets	IEMG	Equity - Emerging Market	2.0%	14%	45.61	16.9%	
Core S&P Mid-Cap	IJH	Equity - Mid Cap	1.6%	13%	154.71	12.4%	
MSCI UK	EWU	Equity - International	4.5%	12%	15.84	0.6%	
Core S&P Small-Cap	IJR	Equity - Small Cap	1.30%	11%	124.15	13.90%	
MSCI Japan	EWJ	Equity - International	1.40%	6%	12.54	4.30%	

► Designed to generate long-term capital appreciation with downside risk controls. Appropriate Benchmark: 100% S&P 500

